

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 CEA-01 AGR-05

AGRE-00 /094 W

----- 112367

R 241936Z SEP 76

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 7279

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E.O. 11652: N/A

TAGS: EGEN, EFIN, ELAB, AR

SUBJECT: MAJOR SPEECH ON ARGENTINE ECONOMY BY MINISTER MARTINEZ
DE HOZ

REF: BUENOS AIRES 6292

1. AS SEEMS CHARACTERISTIC OF THE ARGENTINE, REACTION TO MINISTER MARTINEZ DE HOZ'S SPEECH (REFTEL) ON THE ECONOMY WAS QUITE DIVERSE. THE ONLY COMMON GROUND SEEMS TO BE GENERAL AGREEMENT THAT COST OF LIVING INCREASES WILL REMAIN HIGH (6-10 PERCENT PER MONTH) THROUGHOUT THE REST OF THE YEAR AND THAT THE GOA WILL HAVE TO PERMIT AT LEAST ONE WAGE ADJUSTMENT DURING THE PERIOD TO MAINTAIN REAL WAGES AT THE MAY-JUNE LEVEL. THE RISE IN INTEREST RATES FOR TIME DEPOSITS AND SHARP JUMP IN PRICES OF NATIONAL ADJUSTABLE BONDS (ADJUSTED FOR INFLATION) THE DAY FOLLOWING THE SPEECH APPEARED TO CONFIRM THIS GENERAL EXPECTATION.

2. TO HIS SUPPORTERS, THE SPEECH WAS EVIDENCE THAT THE
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MINISTER HAD THE FULL SUPPORT OF THE JUNTA TO CARRY

OUT HIS PROGRAM AND THAT THE GOVERNMENT WOULD BE
ABLE TO KEEP INFLATIONARY PRESSURES UNDER CONTROL
(6-10 PERCENT PER MONTH INFLATION IS CONSIDERED
"NORMAL" IN ARGENTINE CONTEXT).

3. TO HIS CRITICS, THE SPEECH WAS A SIGN OF THE
CURRENT WEAKNESS OF THE ECONOMIC PROGRAM AND THAT,
DESPITE THE HUGE SOCIAL COST, THE STABILIZATION
EFFORTS WOULD IN THE END FAIL. THEY ALSO TOOK ISSUE
WITH SPECIFIC POINTS MADE IN THE SPEECH. INSTEAD OF
A POSITIVE DEVELOPMENT, SOME ATTRIBUTE THE CURRENT
SIGNS OF RECOVERY OF PRODUCTION AND INCREASE IN
IMPORTS TO A RETURN OF INFLATION-INDUCED SPECULATIVE
BEHAVIOR -- I.E., BUILD UP OF INVENTORIES AS A HEDGE
AGAINST INFLATION. THEY ALSO GREETED AS A HUMOROUS,
SEMANTICAL PLAY ON WORDS THE MINISTER'S ASSERTION THAT
RECENT INCREASES IN PRICE INDEXES WERE "READJUSTMENTS"
RATHER THAN AN UPWARD INFLATIONARY SPIRAL. PRICES
WERE INCREASING WHATEVER THE TECHNICAL REASON. ONE
CRITIC QUESTIONED THE LEGITIMACY OF USING 1960 AS A
BASE OF COMPARISON (WHY NOT ANOTHER YEAR?) AND POINTED OUT
THAT THE MINISTER HAD FAILED TO MENTION THAT
CURRENT REAL WAGES WERE ALSO BELOW THOSE PREVAILING
IN 1960 AND JUSTIFIED A "READJUSTMENT." THE SAME
CRITIC REFUTED THE MINISTER'S CLAIM REGARDING UNEMPLOYMENT,
CIRITNG A RECENT PRIVATE STUDY THAT THE CURRENT UNEMPLOYMENT
LEVEL IS 8.8 PERCENT -- A RATE JUST AS HIGH AS THAT EXPERIENCED
IN THE U.S. WHICH DOES NOT EVEN TAKE INTO ACCOUNT THE
HIGH DEGREE OF UNDEREMPLOYMENT.

4. COMMENT: WE SHARE VIEWPOINT THAT THE MINISTER'S
SPEECH IS AN INDICATION THAT HE CONTINUES TO ENJOY
THE CONFIDENCE OF PRESIDENT VIDELA. PRESSURES HAVE
BEEN BUILDING UP, HOWEVER, AND THERE ARE REPORTS
THAT SOME MILITARY HAVE BEEN ADVOCATING GREATER
SALARY RAISES IN THE FACE OF THE INCREASING RATE OF
INFLATION (ABOUT 10 PERCENT IN SEPTEMBER). THE
MEASURES ANNOUNCED TO DAMPEN MEAT PRICE INCREASES
AND THE PROSPECT OF MORE INTENSE JAWBONING EFFORTS
WILL PROBABLY NOT REDUCE THE RATE INFLATION SIGNIFICANTLY
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BUT MAY SUCCEED IN PREVENTING AN UNMANAGEABLE UPWARD
SPIRAL FROM DEVELOPING. OTHERWISE, AS THE MINISTER
INDICATED, ALL GAINS TO DATE MAY BE LOST.
HILL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, SPEECHES, ECONOMIC ESTIMATES
Control Number: n/a
Copy: SINGLE
Draft Date: 24 SEP 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BUENOS06293
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760362-1163
From: BUENOS AIRES
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760924/aaaaaumf.tel
Line Count: 111
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 BUENOS AIRES 6292
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 09 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 JUL 2004 by ElyME>; APPROVED <28 OCT 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MAJOR SPEECH ON ARGENTINE ECONOMY BY MINISTER MARTINEZ DE HOZ
TAGS: EGEN, EFIN, ELAB, AR
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006